

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Baraga Housing Commission</b>	County <b>Baraga</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/29/05</b>	Date Accountant Report Submitted to State: <b>12/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

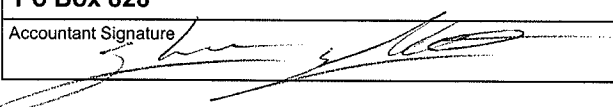
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>Po Box 828</b>		City <b>Iron Mountain</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49801</b>	Date <b>12-8-05</b>

**BARAGA HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended June 30, 2005

## BARAGA HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Baraga Housing Commission  
Baraga, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Baraga Housing Commission, component unit of the Village of Baraga, as of and for the year ended June 30, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Baraga Housing Commission as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2005 on our consideration of the Baraga Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Baraga Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

August 29, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Baraga Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$985,248 at June 30, 2005 compared to \$1,102,269 at June 30, 2004.
- The Commission's operating revenues totaled \$286,365 for June 30, 2005 and \$324,886 for June 30, 2004, while operating expenses totaled \$406,850 for June 30, 2005 and \$395,000 for June 30, 2004.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at June 30, 2005 decreased \$(117,021) from June 30, 2004.

**Table 1**

### NET ASSETS

#### Assets

	June 30	
	<u>2005</u>	<u>2004</u>
Current assets	\$ 205,360	\$ 207,889
Capital assets (net)	<u>834,427</u>	<u>947,203</u>
Total assets	<u>1,039,787</u>	<u>1,155,092</u>

#### Liabilities

Current liabilities	32,029	31,805
Non-current liabilities	<u>22,510</u>	<u>21,018</u>
Total liabilities	<u>54,539</u>	<u>52,823</u>

#### Net Assets

Invested in capital assets, net of related debt	834,427	947,203
Unrestricted	<u>150,821</u>	<u>155,066</u>
Net Assets	<u>\$ 985,248</u>	<u>\$1,102,269</u>

Net assets of the Commission stood at \$985,248 at June 30, 2005 compared to \$1,102,269 at June 30, 2004. Unrestricted net business assets were \$150,821 compared to \$155,066 at June 30, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2****CHANGE IN NET ASSETS**

	Year Ended, June 30	
	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 114,403	\$ 116,255
Program grants & subsidies	170,352	207,315
General revenues:		
Other income	1,610	1,316
Unrestricted investment earnings	<u>3,464</u>	<u>4,258</u>
Total revenues	289,829	329,144
<b>Program Expenses:</b>		
Operating expenses	<u>(406,850)</u>	<u>(395,000)</u>
Change in net assets	(117,021)	(65,856)
<b>Net assets – beginning of period</b>	<u>1,102,269</u>	<u>1,168,125</u>
<b>Net assets – end of period</b>	<u>\$ 985,248</u>	<u>\$1,102,269</u>

**BUSINESS-TYPE ACTIVITIES**

Revenues for the Commission totaled \$289,829 compared to \$329,144 during June 30, 2004. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## CAPITAL ASSETS

### Capital Assets

The Commission had \$2,850,677 invested in a variety of capital assets including land, equipment and buildings at June 30, 2005 and June 30, 2004.

Table 3

#### CAPITAL ASSETS AT JUNE 30, 2005 Business – Type Activity

	<u>6-30-05</u>	<u>6-30-04</u>
Land and improvements	\$ 360,963	\$ 360,963
Buildings and improvements	2,362,385	2,362,385
Equipment	<u>127,329</u>	<u>127,329</u>
Total cost	2,850,677	2,850,677
Less accumulated depreciation	<u>(2,016,250)</u>	<u>(1,903,474)</u>
NET CAPITAL ASSETS	\$ <u>834,427</u>	\$ <u>947,203</u>

The Commission did not invest in any capital assets during the year ended June 30, 2005.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

### CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Mike Wadaga at 416 Michigan Avenue, Baraga, Michigan 49908, or call 906-353-6432.

# BARAGA HOUSING COMMISSION

## STATEMENT OF NET ASSETS Proprietary Fund

June 30, 2005

CURRENT ASSETS:

Cash and equivalents	\$ 141,389
Accounts receivable	1,790
Investments	57,348
Prepaid expenses	<u>4,833</u>

TOTAL CURRENT ASSETS	<u>205,360</u>
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NONCURRENT ASSETS:

Capital assets	2,850,677
Less accumulated depreciation	<u>(2,016,250)</u>

NET CAPITAL ASSETS	<u>834,427</u>
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TOTAL ASSETS	<u>\$ 1,039,787</u>
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CURRENT LIABILITIES:

Accounts payable	\$ 7,323
Accrued liabilities	<u>24,706</u>

TOTAL CURRENT LIABILITIES	32,029
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OTHER LIABILITIES	<u>22,510</u>
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TOTAL LIABILITIES	<u>54,539</u>
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NET ASSETS:

Investment in capital assets, net of related debt	834,427
Unrestricted net assets	<u>150,821</u>

NET ASSETS	<u>\$ 985,248</u>
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The accompanying notes to financial statements are an integral part of this statement.



**BARAGA HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 406,850	\$ 114,403	\$ 170,352	\$ -
				\$ (122,095)
General revenues:				
Unrestricted investment earnings				3,464
Other				1,610
Total general revenues				5,074
Change in net assets				(117,021)
NET ASSETS, beginning of year				1,102,269
NET ASSETS, end of year				\$ 985,248

The accompanying notes to the financial statements are an integral part of this statement.

**BARAGA HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended June 30, 2005

**OPERATING REVENUES:**

Tenant revenue	\$ 114,403
Program grants-subsidies	170,352
Other income	<u>1,610</u>

**TOTAL OPERATING REVENUES**

286,365

**OPERATING EXPENSES:**

Administration	90,552
Tenant services	918
Utilities	52,751
Maintenance	75,854
General	10,344
Housing assistance payments	63,655
Depreciation	<u>112,776</u>

**TOTAL OPERATING EXPENSES**

406,850

**OPERATING (LOSS)**

(120,485)

**OTHER INCOME:**

Interest income	<u>3,464</u>
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**TOTAL OTHER INCOME**

3,464

**CHANGE IN NET ASSETS**

(117,021)

**NET ASSETS, BEGINNING OF YEAR**

1,102,269

**NET ASSETS, END OF YEAR**

\$ 985,248

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The accompanying notes to financial statements are an integral part of this statement.

## **BARAGA HOUSING COMMISSION**

### **STATEMENT OF CASH FLOWS Proprietary Fund**

For the Year Ended June 30, 2005

**OPERATING ACTIVITIES:**

Cash received from customers	\$ 112,997
Cash received from grants and subsidies	175,510
Cash payments to suppliers for goods and services	(180,912)
Cash payments for wages and related benefits	(112,453)
Other receipts	<u>1,610</u>

NET CASH (USED) BY OPERATING ACTIVITIES (3,248)

**INVESTING ACTIVITIES:**

Purchase of investments	(1,444)
Investment income	<u>3,490</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES 2,046

NET (DECREASE) IN CASH AND EQUIVALENTS (1,202)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 142,591

CASH AND EQUIVALENTS, END OF YEAR \$ 141,389

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income (loss)	\$ (120,485)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	112,776
Changes in assets and liabilities:	
Decrease (Increase) in receivables	3,752
Decrease (Increase) in prepaid expenses	(1,007)
Increase (Decrease) in accounts payable	(6,803)
Increase (Decrease) in accrued liabilities	<u>8,519</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (3,248)

The accompanying notes to financial statements are an integral part of this statement.



## **BARAGA HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Baraga Housing Commission (Commission) was formed by the Baraga Village Board under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the Village.

The Commission manages 50 Low Rent Public Housing units and 25 Section 8 Housing Choice Vouchers. The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Baraga Housing Commission, but the Commission is a component unit of the Village of Baraga, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



## **BARAGA HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after August 29, 1989, except those that conflict with a GASB pronouncement.



## **BARAGA HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS**

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.





## **BARAGA HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS (Continued)**

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to June 30<sup>th</sup>, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.



## BARAGA HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

#### NOTE B - CASH AND INVESTMENTS

##### Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 150
Checking accounts	27,098
Savings accounts	<u>114,141</u>
<b>TOTAL</b>	<b><u>\$141,389</u></b>

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of June 30, 2005, the Commission's cash and equivalents were not exposed to credit risk due to them being fully insured.

##### Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1-5</u>
Certificates of Deposit	\$ 57,348	\$ 25,783	\$ 31,565

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



## BARAGA HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

#### NOTE B - CASH AND INVESTMENTS (Continued)

##### Investments (Continued)

*Credit Risk.* Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

*Concentration of Credit Risk.* The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. All of the Commission's investments are with the Superior National Bank.

#### NOTE C - CAPITAL ASSETS

A summary of capital assets as of June 30, 2005 is as follows:

	Balance			Balance
	<u>7-1-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>6-30-05</u>
Land and improvements	\$ 360,963	\$ -	\$ -	\$ 360,963
Building and improvements	2,362,385	-	-	2,362,385
Equipment	<u>127,329</u>	<u>-</u>	<u>-</u>	<u>127,329</u>
	2,850,677	\$ <u>-</u>	\$ <u>-</u>	2,850,677
Accumulated depreciation	( <u>1,903,474</u> )	\$ ( <u>112,776</u> )	\$ <u>-</u>	( <u>2,016,250</u> )
Net capital assets	\$ <u>947,203</u>			\$ <u>843,427</u>

Depreciation expense for the year was \$112,776.

#### NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



## **BARAGA HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended June 30, 2005 totaled \$286,365 of which \$170,352 or 59.5% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

#### **NOTE G- PENSION PLAN**

The Commission has established a SEP-IRA plan of which the Commission contributes 8.5% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$5,378.





**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## **SUPPLEMENTAL INFORMATION**



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS:					
CURRENT ASSETS:					
Cash:					
111	Cash - unrestricted	\$ 127,716	\$ 13,673	\$ -	\$ 141,389
100	Total cash	127,716	13,673	-	141,389
Accounts and notes receivables:					
126	Accounts receivable- Tenants - Dwelling rents	2,126	-	-	2,126
126.1	Allowance for doubtful account - Dwelling rents	(569)	-	-	(569)
129	Accrued interest receivable	233	-	-	233
120	Total receivables, net of allowances for doubtful accounts	1,790	-	-	1,790
Current investments					
131	Investments	57,348	-	-	57,348
142	Prepaid expenses	4,619	214	-	4,833
144	Interprogram due from	983	-	-	983
150	TOTAL CURRENT ASSETS	192,456	13,887	-	206,343

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:					
Fixed assets:					
161	Land	4,858	-	-	4,858
162	Buildings	2,362,385	-	-	2,362,385
163	Furniture, equipment & machinery - dwellings	31,752	-	-	31,752
164	Furniture, equipment & machinery - administration	95,577	-	-	95,577
165	Leasehold improvements	356,105	-	-	356,105
166	Accumulated depreciation	(2,016,250)	-	-	(2,016,250)
160	Total fixed assets, net of accumulated depreciation	834,427	-	-	834,427
180	TOTAL NONCURRENT ASSETS	834,427	-	-	834,427
190	TOTAL ASSETS	\$ 1,026,883	\$ 13,887	\$ -	\$ 1,040,770

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>LIABILITIES AND EQUITY:</b>					
<b>LIABILITIES:</b>					
<b>CURRENT LIABILITIES</b>					
312	Accounts payable ≤ 90 days	\$ 7,275	\$ 48	-	\$ 7,323
321	Accrued wages / payroll taxes payable	2,012	-	-	2,012
322	Accrued compensated absences - current portion	4,498	105	-	4,603
331	Accounts payable - HUD PHA programs	-	7,464	-	7,464
341	Tenant security deposits	10,129	-	-	10,129
342	Deferred revenues	498	-	-	498
347	Interprogram due to	-	983	-	983
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>24,412</b>	<b>8,600</b>	<b>-</b>	<b>33,012</b>
354	Accrued compensated absences - non current	21,858	652	-	22,510
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>21,858</b>	<b>652</b>	<b>-</b>	<b>22,510</b>
300	<b>TOTAL LIABILITIES</b>	<b>46,270</b>	<b>9,252</b>	<b>-</b>	<b>55,522</b>

See accompanying notes to financial statements





**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
EQUITY:					
Contributed Capital:					
508.1	Investment in capital assets, net of related debt	834,427	-	-	834,427
512.1	Unrestricted net assets	146,186	4,635	-	150,821
513	TOTAL EQUITY	980,613	4,635	-	985,248
600	TOTAL LIABILITIES AND EQUITY	\$ 1,026,883	\$ 13,887	\$ -	\$ 1,040,770

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
REVENUE:					
703	Net tenant rental revenue	\$ 106,513	\$ -	-	\$ 106,513
704	Tenant revenue - other	7,890	-	-	7,890
705	Total tenant revenue	114,403	-	-	114,403
706	HUD PHA grants	83,147	74,644	12,561	170,352
711	Investment income - unrestricted	3,349	115	-	3,464
715	Other revenue	1,610	-	-	1,610
700	TOTAL REVENUE	202,509	74,759	12,561	289,829
EXPENSES:					
Administrative					
911	Administrative salaries	38,190	9,688	-	47,878
912	Auditing fees	2,210	300	-	2,510
914	Compensated absences	60	(52)	-	8
915	Employee benefit contributions- administrative	13,179	1,279	-	14,458
916	Other operating- administrative	22,899	2,799	-	25,698
	Total Administrative	76,538	14,014	-	90,552

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services					
924	Tenant services - other	918	-	-	918
Utilities					
931	Water	25,200	-	-	25,200
932	Electricity	8,495	-	-	8,495
933	Gas	19,056	-	-	19,056
	Total Utilities	52,751	-	-	52,751
Maintenance					
941	Ordinary maintenance and operations - labor	29,675	-	-	29,675
942	Ordinary maintenance and operations - materials & other	9,104	-	-	9,104
943	Ordinary maintenance and operations - contract costs	15,165	-	-	15,165
945	Employee benefit contributions- ordinary maintenance	21,910	-	-	21,910
	Total Maintenance	75,854	-	-	75,854
General expenses					
961	Insurance premiums	10,164	-	-	10,164

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
962	Other general expenses	-	227	-	227
964	Bad debt - tenant rents	(47)	-	-	(47)
	Total General Expenses	10,117	227	-	10,344
969	TOTAL OPERATING EXPENSES	216,178	14,241	-	230,419
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(13,669)	60,518	12,561	59,410
973	Housing assistance payments	-	63,655	-	63,655
974	Depreciation expense	112,776	-	-	112,776
900	TOTAL EXPENSES	328,954	77,896	-	406,850
	Other financing sources (uses)				
1001	Operating transfers in	12,561	-	-	12,561
1002	Operating transfers out	-	-	(12,561)	(12,561)
1010	Total other financing sources (uses)	12,561	-	(12,561)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (113,884)	\$ (3,137)	\$ -	\$ (117,021)

See accompanying notes to financial statements



**BARAGA HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
MEMO account information					
1103	Beginning equity	\$ 1,094,497	\$ 7,851	\$ -	\$ 1,102,348
1104	Prior Period Adjustments, Equity Transfers	\$ -	\$ (79)	\$ -	\$ (79)
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 83,227	\$ -	\$ 83,227
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ 929	\$ -	\$ 929
1116	Total Annual Contributions Available	\$ -	\$ 84,156	\$ -	\$ 84,156
1120	Unit months available	600	300	-	900
1121	Number of unit months leased	567	273	-	840

See accompanying notes to financial statements

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Baraga Housing Commission  
Baraga, Michigan

We have audited the financial statements of the business-type activities of the Baraga Housing Commission, as of and for the year ended June 30, 2005, which collectively comprise the Baraga Housing Commission's basic financial statements and have issued our report thereon dated August 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Baraga Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baraga Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson, Tackman & Co., P.L.C.*

ANDERSON, TACKMAN & COMPANY, P.L.C.  
Certified Public Accountants  
Iron Mountain, Michigan

August 29, 2005





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

August 29, 2005

Board of Commissioners  
Baraga Housing Commission  
Baraga, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Baraga Housing Commission for the year ended June 30, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 29, 2005, on the financial statements of the Baraga Housing Commission.

1. During the audit it was noted that HAP payments made during some months were in excess of HAP funding from HUD.

Recommendation

Due to the new funding standards implemented by HUD for Section 8 programs, the Commission should have a policy of reviewing its HAP payments on a monthly basis to make sure that HAP payments going out to tenants do not exceed HAP funding coming in from HUD. HUD is only funding the commission up to a specific amount and will not provide any additional funding in addition to the pre-determined amount. Thus, the commission needs to review its HAP payments very closely each month so as to not continually go over the amount received by HUD.

2. During the review of tenant receipts it was noted that the files were very organized and contained all the required information by HUD. The Executive Director has made several changes over the past couple of years relative to the tenant files, and it was a pleasure seeing attention paid to the organization of those files.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA  
Principal